



BANK OF ENGLAND

News release

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“The Bank and the banks” – speech by Andrew Haldane

In a speech before students at Queen’s University in Belfast, Andrew Haldane – Executive Director for Financial Stability and member of the Financial Policy Committee – takes a historical journey charting the Bank of England’s role in financial crises and its response to them. He describes how radical reform of the Bank’s policymaking framework has been commonplace over its 318-year history, up to and including the new framework for financial stability policy being put in place in the UK.

Understanding how the Bank’s role has evolved is important, says Andrew Haldane, because “Explaining and understanding errors of the past is absolutely essential if policymakers are to learn lessons for the future.” He presents evidence of the Bank having learnt from its crisis experience.

He first points to the realisation that, following criticism of its role in bank failures and financial panics during the 19th century, the Bank became “...guardian of the financial system as a whole, protecting banks from what is today called systemic risk.” He explains that, during the early part of the 20th century, the Bank also gradually assumed a role supporting credit creation and the wider economy. That has continued to the present day with the Special Liquidity Scheme in 2008 and the Funding for Lending Scheme introduced this year.

He then turns to the Bank’s involvement in financial infrastructure. Beginning with a role in the post-war reconstruction effort, he outlines several examples of “...the Bank stepping in to close structural financial gaps”. Most recently, he says, “...the Bank has been at the forefront of the debate about re-organising the structure of banking, with a ring-fence or firewall between the basic retail and investment banking sides of the business.”

The final lesson learned by the Bank, he observes, is the need to pre-emptively monitor, and act on, risks arising across the whole of the financial system. The rise in global bank balance sheets between 1990 and 2007 was a particular case in point. That has led to the introduction of macroprudential policy: “...the missing policy link during the pre-crisis period, the essential bridge between monetary policy and regulation”.

These lessons from history, he argues, are reflected in the wholly new structure for financial policymaking in the UK. First, prudential regulation will move to the Bank. This will undergo a “root-and-branch change” that will combine front-foot supervision with a focus on the big risks. The new approach: “...will be also tolerant of bank failure...so that market discipline can work its magic.”

Second, he highlights that “...during the course of the crisis, there has been a radical, if underplayed, rethink of the Bank’s approach to supplying liquidity to the banking system...this allows banks to access the Bank’s facilities against a much wider range of collateral.”

Third, “...an entirely-new piece of policy machinery has been introduced – new not just for the UK, but internationally too. In the UK, this is called the Financial Policy Committee or FPC. It was put on earth to do macro-prudential policy, to act as the bridge, to provide the missing link”. Andrew Haldane explains that the FPC has recently been focussed on keeping the financial system safe in the face of heightened risks, while at the same time supporting the flow of credit to the economy: “Both objectives are steeped in the Bank’s history – and both objectives are embodied in the FPC’s remit.”

Supporting and executing these new responsibilities, he notes, will be a massive task and will require the Bank to have a rich and diverse set of skills. He points to encouraging evidence of increasing diversity among the Bank’s staff.

Finally, he argues that: “There has been a transformation, too, in the Bank’s approach to external communications and transparency. Think back twenty years. Then, there were no quarterly Inflation Reports, no six-monthly Financial Stability Reports and certainly no press conferences to accompany both. Twenty years ago, there were no minutes of the deliberations of the Bank’s policy committees (today, the MPC and FPC).” That is important, because: “Given its new responsibilities, the Bank cannot fail to remain in the public’s eye in the period ahead. Transparency and accountability will remain the watchwords – and rightly so.”

Key Resources

<http://www.bankofengland.co.uk/publications/Documents/speeches/2012/speech612.pdf>

Full speech by Andrew Haldane